

# Report of the auditor-general to the Gauteng provincial legislature and the council on Mogale City Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Mogale City Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mogale City Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Significant uncertainties

8. With reference to note 48 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered in the financial statements of the Mogale City Local Municipality during the year ended 30 June 2015.

### Material losses

10. As disclosed in note 39 to the financial statements, the municipality incurred material losses amounting to R78 069 967 (2013-14: R77 539 902) as a result of water distribution losses, which represents 42% (2013-14: 44%) of the total water purchased. The total technical losses of water amounted to R27 963 152 (2013-14: R26 361 109). Non-technical losses amounted to R50 106 815 (2013-14: R51 178 793) and are mainly due to faulty prepaid meters, straight pipes in some areas and leakages.

### Material impairments

11. As disclosed in note 3 to the financial statements, the allowance for impairment of receivables from non-exchange transactions amounted to R458 011 880 (2013-14: R343 430 252). The recoverability of these amounts is doubtful.
12. As disclosed in note 4 to the financial statements, the allowance for impairment of receivables from exchange transactions amounted to R416 875 219 (2013-14: R445 900 236). The recoverability of these amounts is doubtful.

## Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Strategic goal 1: Sustainable services to the community on pages x to x
  - Strategic goal 2: To promote a sound environmental management system on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected strategic goals.

### **Additional matters**

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

### Achievement of planned targets

22. Refer to the annual performance report on pages x to x, x to x, x to x and x to x for information on the achievement of the planned targets for the year.

## Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for of both Infrastructure Services and Integrated Environmental Management. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary information

24. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report thereon.

## **Compliance with legislation**

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## **Internal control**

26. I considered internal control relevant to my audit. I did not identify any significant deficiencies in internal control.

## **Other reports**

## Investigations

27. Two internal investigations were conducted during the financial year into acts of alleged fraud perpetrated by municipal officials. One of these investigations were in the disciplinary hearing stage at the date of writing this report while the other was closed as no evidence could be found to substantiate the allegation against the municipal official.

Johannesburg

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*